A Decade of Progress

Delta Acceptance Corporation Limited 1963 Annual Report

Directors:

J. A. Amter	*Executive*
C. E. Boillot	*North American Representative, Suez Financial Company*
A. B. Cornell	*President, New England States Corporation*
F. W. Dowler, Q.C.	*Partner, Ivey, Livermore & Dowler, Barristers & Solicitors*
J. R. Gosnell	*Vice-President, Massachusetts Protective Association Inc.*
R. D. Harrington	*Vice-President and Treasurer, The Paul Revere Life Insurance Co.*
F. W. P. Jones	*Professor of Business Administration, University of Western Ontario*
N. T. Sanderson	*Vice-President and Secretary*
F. J. Talbot	*Investor*
David B. Weldon	*Executive Vice-President, Midland-Osler Securities Limited*
R. W. Yantis	*President*

Officers and senior management

CORPORATE STAFF MANAGEMENT

R. W. Yantis	*President*
H. P. Paterno	*Executive Vice-President*
R. C. Dannecker	*Vice-President*
N. T. Sanderson	*Vice-President and Secretary*
R. A. Sanders, Q.C.	*Vice-President and General Counsel*
G. S. Patchet, C.A.	*Controller and Assistant Secretary*
K. G. Allaster, C.A.	*Assistant Treasurer*
D. J. Sadler	*Assistant Treasurer*

ACCEPTANCE DIVISION

G. F. Weston	*Vice-President and General Manager*
H. E. Dickerson	*Vice-President Operations*
R. M. Hett	*General Sales Manager*

HOME IMPROVEMENT DIVISION

G. I. Erikson	*President and General Manager*
C. W. Bartlett Jr.	*Vice-President Operations*
S. S. Sheldon Jr.	*Vice-President Sales*

INDUSTRIAL BANK DIVISION
COLORADO INDUSTRIAL BANK

S. Nemirow	*Vice-President and General Manager*
T. Jackson	*Senior Vice-President*
V. J. Steele	*Vice-President*
S. H. Saterberg	*Vice-President*
D. F. Hunter	*Vice-President-Manager—East Colorado Industrial Bank*
E. T. Davis	*Vice-President-Manager—Westminster Colorado Industrial Bank*
C. M. Oglesby	*Vice-President-Manager—Englewood-Colorado Industrial Bank*

INSURANCE DIVISION

C. J. Connell	*Vice-President and General Manager*
K. R. Kirkpatrick	*Operations Manager—London and Midland General Insurance Company*
P. A. West	*Operations Manager—Adanac General Insurance Company*

LOAN DIVISION

H. S. Tennant	*Vice-President and General Manager*
C. L. Newton	*Vice-President and Director of Supervision*
R. L. Charette	*Director of Supervision*

10 YEARS OF PLANNED PROGRESS

(Thousands of Dollars)

	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
Receivables Outstanding	176,682	102,604	71,758	56,957	43,501	31,205	8,882	2,800	1,843	275
Capital Funds	46,214	23,315	17,422	14,709	11,246	8,325	2,444	785	350	93
Net Worth	28,285	12,392	8,673	7,487	5,890	5,644	1,194	535	249	92
Deferred Income	16,969	6,911	3,999	3,266	2,647	2,146	719	169	115	31
Total Volume	242,128	156,976	105,603	89,150	73,995	31,110	12,830	5,000	3,516	293
Gross Income	23,525	12,838	9,091	6,866	4,882	2,148	979	337	190	7
Earnings before Income Tax	4,546	1,533	821	906	559	453	199	88	42	(9)
Provision for Taxes	2,195	696	418	467	264	220	94	31	11	-
Net Profit	2,351	837	403	439	295	233	105	57	31	-
Per Share Earnings (average shares outstanding) after Pref. Dividends (¢)	.94	.43	.15	.20	.08	.20	.13	.10	.08	(.05)
Acceptance Branches	33	24	24	17	16	17	7	3	3	2
Small Loan Branches	122	99	77	54	37	15	4	-	-	-
Insurance Branches	8	6	1	-	-	-	-	-	-	-
Industrial Banks (U.S.)	4	-	-	-	-	-	-	-	-	-
Home Improvement Branches (U.S.)	11	-	-	-	-	-	-	-	-	-
Total Branches	178	129	101	71	53	32	11	3	3	2

It gives me great pleasure to report that the past year has provided a most significant and profitable climax to your Company's first decade of operations.

Here are the highlights of our achievements during the year ended December 31, 1963:

- The largest volume of business, gross income and net profit in our history.
- The greatest expansion, in terms of new branches opened.
- Successful entry into the United States market in two separate geographic and financing areas.
- Successful placement of our first public issue, in the form of Convertible Preference Shares.
- Listing of our Common Shares on the Toronto Stock Exchange.

EARNINGS

Net earnings after provision for income taxes increased 181% to $2,351,339 from $837,260 in 1962. Earnings before taxes were 197% higher at $4,546,339 compared to $1,533,260 while gross income rose 83% to $23,525,225 from $12,838,032. Earnings per common share, after deducting preferred dividends, increased 120% to 94¢ from 43¢.

Our 1961 Annual Report stated it was the firm belief of the Directors and Management that the operating base for future profit had been established and subsequent profits should substantially increase in 1962 and future years.

The following results would appear to confirm this belief:

	Increase in Gross Income	Increase in Net After Tax
1962	41% $12,838,032	108% $837,260
1963	83% $23,525,225	181% $2,351,339

U.S. DEVELOPMENT

One of the most important developments for your Company in 1963 was an aggressive expansion into the United States on two fronts.

In January we acquired the Colorado Industrial Bank and its 13 affiliated companies, operating in the greater Denver, Colorado area. This was followed by the purchase of another Industrial Bank (Englewood Colorado Industrial Bank) and the incorporation of two new banks (Westminster Colorado Industrial Bank and East Colorado Industrial Bank.)

In December we acquired Security Acceptance Corporation and its subsidiaries, which finances home improvements through 11 branches in the New England area and New York State.

This penetration of the United States market will increase our U.S. dollar assets and earnings substantially. It is satisfying to note that combined earnings of these subsidiaries in 1963 were sufficient to cover more than 50% of the interest requirements of our entire outstanding U.S. debt.

CANADIAN GROWTH

In Canada, London and Midland General Insurance Company progressed quite satisfactorily in its first full year of operation as a Delta subsidiary, increasing its premium volume 20% to

$2,331,000 from $1,950,000. This company had a small underwriting profit in addition to profit from its investment portfolio —a gratifying performance considering the general casualty insurance industry in this country had an underwriting loss of between $75 million and $100 million in 1962.

During the year a record total of 49 new branches were opened, 15 of which reflect our U.S. acquisitions. The 34 branches opened in Canada are composed of nine Acceptance branches, chiefly in the Province of Quebec; 23 Small Loan branches, with almost half of these in Quebec; and two Insurance branches.

This marked the first venture of our Acceptance division into Quebec and a strengthening of our Small Loans network there to take greater advantage of the potential of this important Canadian marketing area.

We now have a grand total of 178 branches in North America, and anticipate that these will be increased in coming years at an approximate rate of 15% (25 to 30 new branches per year.) Opening new branches is a costly, albeit necessary, procedure, but each passing year will have the effect of reducing this influence on overall earnings as an ever-increasing proportion of branches reaches maturity.

At head office in London, Ont., the installation and programming of a new computer for our Electronic Data Processing Department have been completed and is now in operation. By providing information which was heretofore unavailable, this system enables management to control operations on a day-to-day basis, and to make faster decisions with greater accuracy.

In our opinion, your Company's EDP system is one of the most sophisticated in the finance field in all of Canada. We are constantly striving to improve and develop maximum use of this equipment to obtain the most effective management tools possible, and to minimize costs.

OUTLOOK FOR 1964

While some people in the finance industry have become disturbed by the increasing competition from banks and other institutions recently, your Company believes this is a healthy situation and that there is adequate room for all.

This belief is borne out by figures released by the Dominion Bureau of Statistics for 1963. Retail outstandings of all Acceptance companies in Canada increased 9% in this period to $1,352,000,000 from $1,245,000,000, while small loans held by Small Loan companies rose 14% to $753,000,000 from $662,000,000.

The finance industry is a service industry, and it will continue to grow as long as it efficiently serves the needs and desires of its customers with experience, understanding and widespread facilities.

Your Company's share of the Acceptance market in Canada rose to approximately 5% in 1963 from 4.3% the year before, while penetration of the Small Loan market expanded to 7.6% from 6.4%.

In the U.S., the addition of three new banks to our Industrial Bank complex in Colorado should provide substantial growth in this area. Through Security Acceptance we are also in a position to tap the $2 billion annual home improvement market. The potential here can best be recognized by the fact that Security Acceptance had receivables of approximately $24 million at the end of 1963, whereas a 1% penetration of this market would produce $200 million in receivables.

The current outlook in Canada and the U.S. is such that we confidently anticipate about a 25% increase in business volume in 1964, which will bring the total to over $300,000,000.

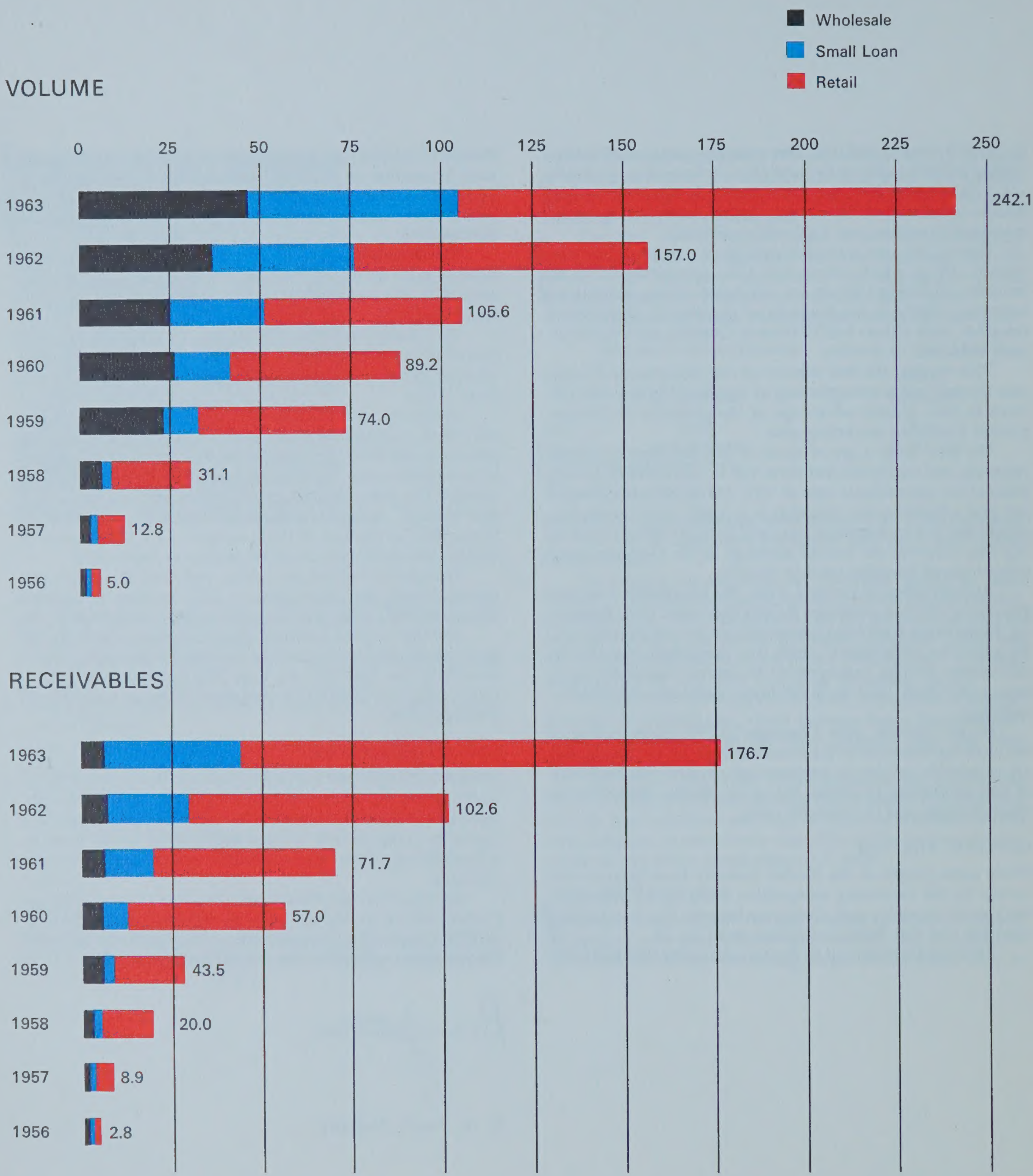
The high regard in which your Company is held by the financial community in Canada and the United States is evidenced by the fact that we were able to finance a gain in receivables of $74,000,000 at progressively lower costs than in previous years.

NEW SHAREHOLDERS

Since the listing of our Common Shares on the Toronto Stock Exchange on November 22, 1963, our total number of registered shareholders has increased to approximately 1,500. As a Canadian company with a considerable stake in our country, it is gratifying to note that some 70% of our shareholders are Canadian.

On behalf of the Officers and Directors of the Company, I would like to welcome all new shareholders and employees with the hope that you will find your association with the Company not only profitable but interesting as well.

R. W. Yantis, President


Wholesale
Small Loan
Retail
VOLUME
0
25
50
75
100
125
150
175
200
225
250
1963
242.1
1962
157.0
1961
105.6
1960
89.2
1959
74.0
1958
31.1
1957
12.8
1956
5.0
RECEIVABLES
1963
176.7
1962
102.6
1961
71.7
1960
57.0
1959
43.5
1958
20.0
1957
8.9
1956
2.8

VOLUME AND RECEIVABLES

VOLUME

Total volume increased $85,151,350 or 54% to $242,127,806 from $156,976,456. Retail increased $58,086,692 or 74% to $135,344,758 from $77,258,066 and represents 56% of total volume. Small Loan increased $20,330,557 or 51% to $60,557,954 from $40,227,397 and represents 25% of total volume. Wholesale increased $6,734,101 or 17% to $46,225,094 from $39,490,993 and represents 19% of total volume.

RECEIVABLES

Total receivables increased $74,077,933 or 72% to $176,681,656 from $102,603,723. Retail receivables increased $61,082,793 or 87% to $131,676,339 from $70,593,546 and represents 74% of total receivables. Small Loan receivables increased $13,230,596 or 53% to $38,331,265 from $25,100,669 and represents 22% of total receivables. Wholesale receivables decreased $235,456 or 4% to $6,674,052 from $6,909,508 and represents only 4% of total receivables. Even though retail receivables increased 87%, your Company was able to accomplish a reduction in wholesale from 7% to 4% of total receivables.

Approximately 50% of retail receivables are secured by auto, and 4% by mobile home. The balance is secured by appliance, marine, home improvement, machinery and equipment, etc. Approximately 57% of Small Loans are secured by household goods only, and 36% by other security, primarily auto. Only 7% are unsecured. New auto represents 76% of the security on wholesale, 10% is represented by used auto, and 14% by mobile homes and other miscellaneous wholesale.

DEFERRED INCOME AND LOSS RESERVES

Deferred income increased 146% to $16,968,652 from $6,911,320 and represents 13.46% of retail receivables on which interest is not separately stated, as compared to 10.42% at the end of 1962. These reserves will be taken into income as the remaining installments of these receivables are paid.

Loss reserves increased 80% to $2,818,735 from $1,567,128. In addition, $1,329,285 has been withheld on contracts purchased and, subject to certain conditions, is available to offset losses. Considering the continuing satisfactory trend of delinquency and losses, these amounts are more than adequate to permit the proper liquidation of receivables.

CANADIAN OPERATIONS

Delta has three main divisions operating in Canada with a total staff of 880. The following is a brief summary of the scope of activity of each division.

ACCEPTANCE DIVISION

This division consists of Delta Acceptance Corporation Limited and its subsidiary, Delta Acceptance Canada Limited. Under the direction of G. F. Weston, Vice-President and General Manager, this division acquires retail instalment sale contracts covering the purchase by consumers of automobiles, mobile homes, appliances and other durable goods. Wholesale advances and loans to dealers are also provided by this division. A capital equipment department provides financing for industrial and commercial accounts on a broad range of revenue producing machinery and equipment. The division has 33 branches and operates in all provinces except Newfoundland and Prince Edward Island. Receivables total $75,000,000.

LOAN DIVISION

This division consists of The Crescent Finance Corporation, Limited and other subsidiaries. Under the direction of H. S. Tennant, Vice-President and General Manager, this division makes loans of two categories: small loans, for amounts not exceeding $1500; and loans for amounts in excess of $1500. Small loans are governed by a federal statute, the Small Loans Act. Crescent, which was acquired in 1957, holds License No. 6 obtained in 1927 under that Act. In almost every case chattel mortgages are taken at the time of making the loan covering automobiles and/or household goods. The division has 122 branches in all provinces and has approximately $62,000,000 in receivables.

INSURANCE DIVISION

This division consists of two subsidiaries under the direction of C. J. Connell, Vice-President and General Manager. These comprise Adanac General Insurance Company of Canada, and London and Midland General Insurance Company, each incorporated by a Special Act of Parliament and licensed to carry on a general insurance business other than life. Incorporated in 1960, Adanac writes business primarily on units financed or taken as collateral by the Acceptance Division. In September 1962, Adanac entered into the "Sub-standard" Liability and Physical Damage automobile lines, to diversify and reduce its dependence on premium volume originating from the business of other divisions of the Company. London and Midland was acquired in 1962 and writes all forms of general insurance exclusively through agents. This division re-insures a substantial proportion of its total risks with other insurance companies. Operating with eight branches, the Insurance Division had a total premium volume in 1963 of $3,598,000.

UNITED STATES OPERATIONS

Delta expansion into the U.S. began in January, 1963. The following is a brief summary of our two main divisions, which employ a total staff of 248.

INDUSTRIAL BANK DIVISION

This division is under the direction of Samuel Nemirow, Vice-President and General Manager. The Colorado Industrial Bank and its affiliated companies, which were acquired in January 1963, operate in the Denver, Colorado area. In accordance with Delta's policy of diversification and expansion in this area, the Englewood-Colorado Industrial Bank was purchased and two new banks, the Westminster Colorado Industrial Bank and East Colorado Industrial Bank, were incorporated. Industrial banks in Colorado can provide their customers with all banking facilities except chequing and trust services. The Colorado Industrial Bank is the largest industrial bank in the State of Colorado, and this division has total assets in excess of $15,000,000 operating from five locations.

HOME IMPROVEMENT DIVISION

This division consists of Security Acceptance Corporation and its subsidiaries under the direction of G. I. Erikson, President and General Manager. It finances home improvements by purchasing customers' notes from building contractors and dealers. Such notes are usually secured by a supplemental mortgage on the home. Security Acceptance Corporation, incorporated in 1960, was acquired by the Company in 1963. It operates a total of 11 branches in New England and New York State, and has receivables of $24,000,000.

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

CANADA

ACCEPTANCE DIVISION

ALBERTA
Calgary
Edmonton (3)
Lethbridge

BRITISH COLUMBIA
Kamloops
New Westminster
Vancouver (2)
Victoria

MANITOBA
Winnipeg

NEW BRUNSWICK
Moncton

NOVA SCOTIA
Dartmouth
Sydney

ONTARIO
Barrie
Hamilton
London
North Bay
Ottawa
Pembroke
Sault Ste. Marie
Sarnia
Toronto (2)
Windsor
St. Catharines

QUEBEC
Montreal (3)
Quebec
Trois Rivieres

SASKATCHEWAN
Regina
Saskatoon

LOAN DIVISION

ALBERTA
Calgary (2)
Camrose
Edmonton (3)
Grand Prairie
Lethbridge
Medicine Hat
Wetaskiwin

BRITISH COLUMBIA
Abbotsford
Dawson Creek
Fort St. John
Kamloops
Kimberley
Nanaimo
New Westminster
Prince George
Vancouver (2)
Victoria

MANITOBA
Brandon
Flin Flon
Thompson
Winnipeg (2)

NEW BRUNSWICK
Bathurst
Campbellton
Chatham
Fredericton
Lancaster
Moncton (2)
Newcastle
Perth
Saint John
St. George
St. Stephen
Sussex
Woodstock

NEWFOUNDLAND
Grand Falls
St. John's (2)
Windsor

NOVA SCOTIA
Amherst
Bridgewater
Dartmouth
Glace Bay
Greenwood
Halifax (2)
Lunenburg
Middleton
New Glasgow
North Sydney
Sydney
Truro

ONTARIO
Ansonville
Arnprior
Barrie
Brantford
Dunnville
Exeter
Fort William
Gananoque
Hamilton (3)
Ingersoll
Kingston
Kitchener
Listowel
London (4)
Midland
Milton
North Bay
Oshawa
Ottawa (2)
Owen Sound
Paris
Parry Sound
Pembroke
Port Arthur
St. Catharines
St. Marys
St. Thomas
Sarnia
Sault Ste. Marie
Stratford
Sudbury (2)
Tillsonburg
Timmins
Toronto
Walkerton
Wawa
Windsor

PRINCE EDWARD ISLAND
Charlottetown
Summerside

QUEBEC
Bagotville
Cap-de-la-Madeleine
Chateauguay
Hull
Lachine
LaTuque
Louiseville
Montreal (2)
Quebec City (2)
Repentigny
St. Hyacinthe
St. Lambert
Ste. Therese de Blainville
Ville Jacques Cartier

SASKATCHEWAN
Regina (2)
Saskatoon

INSURANCE DIVISION

ALBERTA
Calgary

BRITISH COLUMBIA
Vancouver

ONTARIO
London (2)
Toronto (2)

QUEBEC
Montreal (2)

UNITED STATES

INDUSTRIAL BANK DIV.

COLORADO
Denver
East Denver
Englewood
Westminster

HOME IMPROVEMENT DIV.

CONNECTICUT
Hartford

MAINE
Portland

MASSACHUSETTS
Boston
Worcester

NEW HAMPSHIRE
Manchester

NEW YORK
Albany
Syracuse
White Plains
Buffalo

RHODE ISLAND
Providence

VERMONT
Burlington

FINANCIAL POSITION

Total Senior Debt increased $44,132,326 to $119,243,210 from $75,110,884. Bank borrowings represented $25,425,896 of this increase and long term $11,738,049. Commercial paper was increased $6,968,381.

Bank lines of credit at year end totalled $71,425,000 with 46 banks as compared to $44,000,000 with 15 banks a year earlier. Lines of credit with our 6 Canadian banks decreased to $23,500,000 from $27,000,000. United States bank lines of credit increased to $47,925,000 with 40 banks from $17,000,000 with 10 banks. Capital funds increased $22,897,799 to $46,213,520 from $23,315,721.

The following shares were allotted and issued during the year:

First preference shares:

Series C—28,400 at their par value of $2,840,000 as partial consideration for purchase of shares of the Colorado Industrial Bank and affiliated companies.

Second preference shares:

(previously third preference shares)

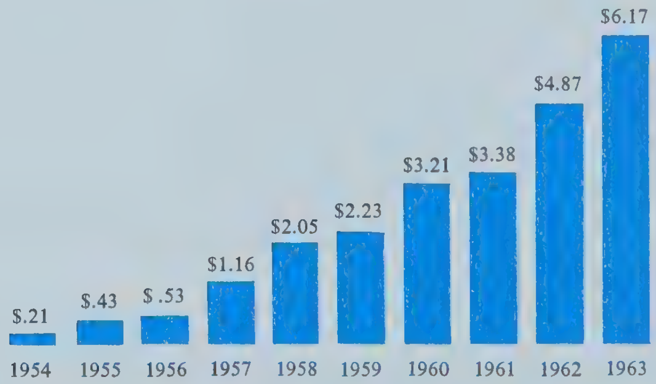
Series A—38,000 for cash of $3,800,000

Series B—50,000 for cash of $5,000,000

Common shares:	*Number*	*Amount*
For cash—		
On exercise of options held by employees	14,100	$ 208,600
On exercise of stock purchase warrants issued to holders of first preference shares—Series A	31,347	227,579
	45,447	$ 436,179
On conversion of second preference shares	132,525	1,472,500
Additional shares issued on subdivision on basis of 3 new shares for each 2 old shares	570,603	
Issued in exchange for preferred and common shares of Security Acceptance Corporation	391,585	1,920,478
	1,140,160	$3,829,157

YEAR END BOOK VALUE PER COMMON SHARE

Adjusted to reflect two for one stock subdivision in 1959 and three for two stock subdivision in 1963.



BORROWED AND EQUITY CAPITAL STRUCTURE

	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
Senior Short Term	82,042	49,648	32,635	28,737	29,168	17,620	5,293	1,789	1,264	141
Senior Long Term	37,201	25,463	18,672	11,252	1,421	2,892	—	—	—	—
Subordinated	10,457	6,572	5,243	4,376	3,225	550	700	150	—	—
Junior Subordinated	7,471	4,352	3,506	2,846	2,131	2,131	550	100	100	—
Preferred Shares	15,310	5,343	4,333	3,398	3,400	3,400	200	200	—	—
Common and Surplus	12,975	7,049	4,340	4,089	2,490	2,244	994	336	—	—
Total	165,456	98,427	68,729	54,698	41,835	28,837	7,737	2,575	1,364	141

In thousands of dollars.

DELTA ACCEPTANCE CORPORATION LIMITED AND ITS SUBSIDIARIES

(Incorporated under The Laws of Ontario)

ASSETS

	1963	1962
Contracts receivable:		
Retail instalment contracts	$129,350,646	$ 68,182,338
Wholesale advances and loans to dealers	8,999,745	9,320,716
Small loans (including accrued interest of $327,383 in 1963 and $208,500 in 1962)	38,331,265	25,100,669
	$176,681,656	$102,603,723
Less allowance for losses on collection	2,818,735	1,567,128
	$173,862,921	$101,036,595
Cash	9,633,215	3,478,298
Prepaid interest and insurance	301,134	105,589
Assets of insurance subsidiaries (see details on schedule 1)	3,616,583	2,418,771
	$187,413,853	$107,039,253
Sundry amounts receivable, prepaid expenses and other assets	$ 424,682	$ 82,666
Repossessions and foreclosures—at approximate market value	106,036	3,767
Deposit on option to purchase shares (see note 1)		540,000
Furniture, fixtures and leasehold improvements—at cost less accumulated depreciation and amortization of $312,369 in 1963 and $126,385 in 1962	301,124	123,960
Deferred commissions, discounts and expenses in connection with the issue of securities—net (see note 3)	365,137	58,054
Deferred cost of developing newly established offices—net (see note 4)	265,469	247,436
	$ 1,462,448	$ 1,055,883
Excess of cost of shares acquired over net tangible assets of subsidiary companies—less amounts written off	$ 5,171,564	$ 624,259
	$194,047,865	$108,719,395

On behalf of the Board Director

Director

The attached "Notes to the Consolidated Financial Statements" should be read together with this statement.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1963

(with comparative figures as at December 31, 1962)

Statement 1

LIABILITIES	1963	1962
Accounts payable and accrued charges	$ 1,966,104	$ 1,018,866
Dividends payable		24,561
Taxes payable	2,144,980	365,693
Provision for outstanding insurance claims	775,389	632,782
	$ 4,886,473	$ 2,041,902
Savings deposits	4,837,332	
Senior notes payable (see details on schedule 2)	119,074,210	74,939,884
Subordinated notes payable (see details on schedule 3)	10,456,853	6,571,733
Junior subordinated notes payable (see details on schedule 4)	7,471,425	4,352,161
Sinking fund debentures payable by subsidiary companies less cash on deposit (see details on schedule 5)	169,000	171,000
Amounts withheld on contracts purchased	1,329,285	1,057,239
Total liabilities (see note 5)	$148,224,578	$ 89,133,919
Unearned discount and service charges	$ 16,968,652	$ 6,911,320
Unearned premiums of insurance subsidiaries	569,393	282,329
	$ 17,538,045	$ 7,193,649
Shareholders:		
Capital (see details on schedule 6)—		
Preference shares	$ 15,310,000	$ 5,342,500
Common shares	9,513,273	5,684,116
Reserve for foreign exchange fluctuations (see note 5)	535,000	80,000
Earned surplus (see note 6)—statement 2	2,926,969	1,285,211
	$ 28,285,242	$ 12,391,827
	$194,047,865	$108,719,395

AUDITORS' REPORT

To the Shareholders, Delta Acceptance Corporation Limited, London, Canada.

We have examined the consolidated balance sheet of Delta Acceptance Corporation Limited and its subsidiaries as at December 31, 1963 and the consolidated statements of profit and loss and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Except that provision has not been made for the foreign exchange adjustment of $1,890,000 referred to in note 5, in our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus present fairly the financial position of the companies as at December 31, 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants

London, Canada, March 4, 1964.

DELTA ACCEPTANCE CORPORATION LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CONSOLIDATED EARNED SURPLUS
YEAR ENDED DECEMBER 31, 1963

Statement 2

	1963	1962
Balance of surplus at beginning of year	$ 1,285,211	$ 783,168
Add:		
Consolidated earned surplus of Security Acceptance Corporation and its subsidiaries at beginning of year (see note 2)	250,017	
Consolidated net profit for year—statement 3	2,351,339	837,260
	$ 3,886,567	$ 1,620,428
Deduct:		
Dividends paid on preference shares during the year by:		
Delta Acceptance Corporation Limited		
6% first preference shares Series A	$ 91,200	$ 102,525
5½% first preference shares Series B	63,250	63,250
3% first preference shares Series C	72,183	—
5⅞% second preference shares	—	86,509
5½% second preference shares Series A (previously third preference shares Series A)	238,456	2,933
Security Acceptance Corporation prior to date of acquisition	39,509	—
	$ 504,598	$ 255,217
Appropriation to reserve for foreign exchange fluctuations	455,000	80,000
	$ 959,598	$ 335,217
Balance of surplus at end of year	$ 2,926,969	$ 1,285,211

The attached "Notes to the Consolidated Financial Statements" should be read together with this statement.

DELTA ACCEPTANCE CORPORATION LIMITED AND ITS SUBSIDIARIES
STATEMENT OF CONSOLIDATED PROFIT AND LOSS
YEAR ENDED DECEMBER 31, 1963

Statement 3

	1963	1962
Income:		
Interest, discount and service charges earned	$22,600,031	$12,419,364
Gross underwriting profit of insurance subsidiaries	925,194	418,668
	$23,525,225	$12,838,032
Expenses:		
New business, collection and administrative expenses—		
Executive remuneration	$ 356,865	$ 169,605
Salaries and wages	4,344,064	2,288,969
Regional expenses	286,234	298,177
Legal and audit services	205,003	58,238
Rental and depreciation of equipment and amortization of leased premises	221,160	109,081
Other general and administrative expenses	4,205,214	2,275,291
Less credit for deferred cost of developing newly established offices—net (see note 4)	(38,033)	(61,465)
	$ 9,580,507	$ 5,137,896
	$13,944,718	$ 7,700,136
Other expenses:		
Allowance for losses on collection of contracts	$ 2,316,657	$ 1,709,199
Cost of borrowing	7,081,722	4,457,677
	$ 9,398,379	$ 6,166,876
Consolidated profit before taxes on income	$ 4,546,339	$ 1,533,260
Taxes on income (see note 7)	2,195,000	696,000
Consolidated net profit for the year (see notes 2 and 7)	$ 2,351,339	$ 837,260

The attached "Notes to the Consolidated Financial Statements" should be read together with this statement.

DELTA ACCEPTANCE CORPORATION LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 1963

Note 1—ACQUISITION OF SUBSIDIARY COMPANIES

In January of 1963 Delta Acceptance Corporation Limited (in accordance with the terms of an option obtained in 1962) acquired all of the outstanding shares of Colorado Industrial Bank and 13 affiliated companies which carry on operations in the State of Colorado. The total consideration of $8,240,000 (Canadian funds) for this purchase was satisfied as follows:

Cash payment on receipt of option (paid in 1962)	$ 540,000
Cash payment on closing in 1963	4,860,000
Issue from treasury of 28,400 first preference shares Series C at par value	2,840,000
	$8,240,000

As at July 1, 1963 the company also acquired all of the shares of Englewood-Colorado Industrial Bank for cash of $408,096 (Canadian funds).

In December of 1963 all of the outstanding shares of Security Acceptance Corporation were acquired in exchange for the issue of 391,585 treasury common shares of Delta Acceptance Corporation Limited. This company and its subsidiaries carry on operations in several states of the United States of America.

Note 2—PRINCIPLES OF CONSOLIDATION

The accompanying consolidated balance sheet as at December 31, 1963 includes the accounts of Delta Acceptance Corporation Limited and all of its subsidiaries. The comparative figures shown for 1962 do not include the accounts of subsidiaries acquired during 1963 as referred to in Note 1.

The acquisition of the shares of Security Acceptance Corporation has been treated as a "pooling of interests" and, accordingly, the consolidated earned surplus of that company and its subsidiaries (amounting to $250,017 as at January 1, 1963) has been added as at that date to the consolidated earned surplus of Delta Acceptance Corporation Limited and its other subsidiaries.

Earnings of newly acquired subsidiary companies have been included in the accompanying statement of consolidated earnings only from the respective dates of acquisition except in the case of Security Acceptance Corporation. The earnings of this subsidiary have been included for the whole of the year 1963 as the acquisition was made on a "pooling of interests" basis. Earnings of Security Acceptance Corporation, which amounted to $179,685 for the year ended December 31, 1962, are not included in the comparative figures shown for 1962.

Assets (including fixed assets which are not of significant value) and liabilities of subsidiaries operating in the United States of America have been included in the consolidated balance sheet as at December 31, 1963 in Canadian funds based on the rate of exchange prevailing at that date. The earnings of United States subsidiaries have been included in the statement of consolidated profit and loss for the year ended December 31, 1963 in Canadian funds at the average rate of exchange which prevailed during the year.

Note 3—DEFERRED COMMISSIONS, DISCOUNTS AND EXPENSES—NET

The companies follow the practice (adopted in 1958) of deferring commissions, discounts, legal and other expenses incurred in connection with the issue of notes payable and shares. Each such expenditure is amortized and charged against operations over the sixty months following the date on which it is incurred.

In accordance with this practice, there has been deferred at December 31, 1963 an amount of $565,137 ($107,054 at December 31, 1962) representing the unamortized portion of financing expenses incurred since January 1, 1959. As it is the policy of the companies to claim such expenses (to the extent allowable) as a deduction from taxable income in the year in which they are incurred, the amount deferred in the accompanying consolidated balance sheet has been decreased by the resulting reduction in income taxes of $200,000 ($49,000 at December 31, 1962), leaving net deferred financing expenses of $365,137 ($58,054 at December 31, 1962).

Note 4—DEFERRED COST OF DEVELOPING NEWLY ESTABLISHED OFFICES—NET

The Crescent Finance Corporation, Limited (a small loan subsidiary) follows the practice (adopted in 1959) of deferring a portion of the operating expenses incurred by each new branch during its development period which is considered to be the first twelve months of operation. The amount deferred for each office is limited to $10,000 and is charged against operations during the thirty-six months following completion of the development period.

In accordance with this practice, there has been deferred at December 31, 1963 an amount of $543,469 ($505,436 at December 31, 1962) representing expenses which are related to seventy-nine branches opened since January 1, 1960 and which have not yet been fully amortized. As it is the company's policy to claim such expenses in full as a deduction from taxable income in the year in which they are incurred, the amount deferred in the accompanying consolidated balance sheet has been decreased by the resulting reduction in income taxes of $278,000 ($258,000 at December 31, 1962), leaving net deferred development costs of $265,469 ($247,436 at December 31, 1962).

Note 5—LIABILITIES IN UNITED STATES FUNDS

The operating policy of the companies contemplates the borrowing of substantial sums in United States funds on a continuing basis and provides for the refunding of such liabilities as they mature with new borrowings in United States funds. For this reason and in accordance with the practice followed consistently since the inception of such borrowings, net amounts of principal owing by those of the companies which operate in Canada to bankers and other noteholders in United States funds are recorded in the accompanying consolidated balance sheet at the equivalent amount in Canadian funds at the exchange rate prevailing at the time each original liability was incurred. Under this practice no adjustment is made when original liabilities are refunded from the proceeds of subsequent borrowings and liabilities in United States funds incurred for this purpose are recorded in Canadian funds based on the exchange rate applicable to the original borrowing rather than that in effect at the time of refunding. As a result, amounts owing by such Canadian companies in United States funds which totalled $104,183,000 at December 31, 1963 ($67,922,000 at December 31, 1962) are included in the accompanying consolidated balance sheet at $107,904,109 ($68,545,778 at December 31, 1962). Accordingly, if all such indebtedness payable in United States funds had been discharged at the exchange rate in effect at December 31, 1963, the amount of Canadian funds required (after taking into account United States funds held on deposit by such Canadian companies) would have been approximately $4,645,000 ($4,510,000 at December 31, 1962) more than the amounts at which these liabilities are included in the accompanying consolidated balance sheet.

Of the total exchange difference at December 31, 1963, approximately $2,755,000 is related to indebtedness maturing after December 31, 1964. In accordance with the policy of the companies which conforms with generally accepted accounting practice, no adjustment has been made for this amount in the accompanying consolidated balance sheet. Based on the maturities of the outstanding notes payable, not more than $424,000 of this contingent exchange adjustment will be incurred by the companies in any fiscal year.

The balance of the exchange difference (approximately $1,890,000 before taking into account any reduction in income taxes which might result from such an exchange loss) is the amount which would be required at December 31, 1963 to restate refunding loans at the amount in Canadian funds based on the exchange rates prevailing at the dates when such loans were obtained and to restate indebtedness maturing within one year at the equivalent amount in Canadian funds based on the exchange rate prevailing at that date. Of this balance, $110,000 arose during 1963 and $1,780,000 arose during prior years.

The exchange difference has not been reflected in the consolidated balance sheet and the companies have followed their consistent practice of not providing for exchange adjustments although at December 31, 1963 a total of $535,000 had been appropriated from consolidated earned surplus account to establish a reserve for foreign exchange fluctuations. While this practice is considered by the companies to be appropriate in the circumstances, it is recognized that generally accepted accounting practice would require an adjustment of approximately $1,890,000.

Note 6—RESTRICTIONS ON PAYMENT OF DIVIDENDS, ETC.

Delta Acceptance Corporation Limited has covenanted in Supplemental Trust Indentures securing outstanding notes payable not to make any stock payments (which include the payment of dividends on any class of its capital stock, the purchase or redemption of any of such stock and any distribution in respect of such stock) other than any such payments which may be payable solely in stock of the company unless immediately thereafter and after giving effect to the stock payment in question:

(a) the aggregate amount of such stock payments made during the period subsequent to December 31, 1961 will be less than the sum of
  (i) the total consolidated net earnings of the company and its subsidiaries (as defined in the trust indentures) during such period, plus
  (ii) two hundred and fifty thousand dollars ($250,000);

(b) the aggregate amount of such stock payments made upon or in respect of common shares of the company during the period subsequent to December 31, 1961 will be less than fifty per cent (50%) of the total consolidated net earnings of the company and its subsidiaries during such period (covenants relating to notes payable having an aggregate unpaid principal amount of approximately $4,435,000 restrict the aggregate amount of stock payments in respect of common shares to 10% of total consolidated net earnings from December 31, 1957);

(c) the adjusted consolidated net worth of the company and its subsidiaries (as defined in the trust indentures) will not be reduced to less than $10,500,000.

Notwithstanding the foregoing restrictions but subject to the covenant referred to below, after notes payable having an aggregate unpaid principal amount of approximately $7,400,000 have been repaid, the Company will be permitted to retire any class of its capital stock by exchange for, or out of the proceeds of, a substantially concurrent sale of other shares of its stock and to pay dividends, without restriction, on any of its preference shares outstanding at December 31, 1961 and upon other preference shares issued in exchange therefore or for cash after December 31, 1961.

The Company has also covenanted with a holder of first preference shares, so long as any first preference shares Series C are outstanding:

(a) not to make any restricted payments (which include the payment of dividends on any class of its capital stock and the redemption, purchase or other acquisition of any shares of its capital stock) other than dividends payable solely on shares ranking subordinate to such Series C shares in shares ranking subordinate to such Series C shares, if after giving effect to the restricted payment, the consolidated net worth of the Company would be less than three times the aggregate par value of all of its issued first preference shares plus all shares ranking in priority thereto or on a parity therewith;

(b) not to declare or pay any dividends on its common shares (other than dividends in common shares) if, after giving effect to such payment, the earned surplus available under the terms of its Supplemental Trust Indentures for the payment of dividends on and the making of sinking fund redemptions of such Series C shares during the then current sinking fund year would be less than the total of such dividends and sinking fund requirements;

(c) to apply toward the immediate redemption of such Series C shares in anticipation of sinking fund requirements thereon from the sale of any additional first preference shares and/or any shares ranking in priority thereto or any on a parity therewith amounts equal to the greater of
  (i) the Series C sinking fund requirement falling due in the sinking fund year in which such additional shares are sold, or
  (ii) 50% of the proceeds from such sale of additional shares.

Note 7—TAXES ON INCOME

Consolidated net profits for the years 1963 and 1962 have been reduced by $171,000 and $36,000 respectively as a result of provisions for income taxes which are greater than the amount of taxes actually payable. These differences represent reductions in taxes which would otherwise be payable as a result of the claiming for tax purposes of expenses and costs which were not charged against the operations of the years concerned but which were deferred to future accounting periods as follows:

	1963	1962
(i) Cost of developing newly established offices	$ 20,000	$33,000
(ii) Expenses in connection with issue of notes and shares	151,000	3,000
	$171,000	$36,000

The reduction in taxes payable arising from the claiming of deferred development and financing expenses is applicable to those future periods when amounts permitted as deductions from taxable income will be less than the portion of the deferred amounts deducted from earnings in the annual financial statements. Accordingly, the tax reductions from these sources in 1963 together with accumulated similar reductions carried forward from prior years have been applied to reduce the amounts at which the respective deferred assets are carried in the accompanying consolidated balance sheets (see notes 3 and 4).

Consolidated net profits for the years 1963 and 1962, have been increased by $69,000 and $71,000 respectively as a result of reductions in the amount of taxes on income charged against such profits. These reductions in taxes from the amounts which would otherwise have been payable arose from the carry-forward for tax purposes of losses incurred by London and Midland General Insurance Company (a subsidiary) prior to its acquisition in 1962 by Delta Acceptance Corporation Limited and from certain provisions of the applicable tax laws which permit the deferment of taxes payable on a portion of the income of insurance subsidiaries.

DELTA ACCEPTANCE CORPORATION LIMITED AND ITS SUBSIDIARIES
DETAILS OF CERTAIN ITEMS APPEARING ON THE CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1963

Schedule 1—ASSETS OF INSURANCE SUBSIDIARIES

Assets of wholly-owned subsidiary insurance companies at December 31, 1963 and 1962 consisted of:

	1963	1962
Cash	$ 777,644	$ 317,330
Amounts due from insurance agents and re-insurance companies	606,082	381,004
Investments—at cost plus accrued interest market value 1963—$1,738,271 1962—$1,166,300	1,767,626	1,192,616
Land, buildings and equipment held for sale—at cost Less accumulated depreciation of $65,272 ($33,127 in 1962)	443,741	476,125
Prepaid expenses and miscellaneous assets	10,927	51,696
Leasehold improvements—at cost less accumulated amortization of $3,000	10,563	
	$3,616,583	$2,418,771

Schedule 2—SENIOR NOTES PAYABLE

	1963		1962	
	United States funds	Amount recorded in Canadian funds (see note 5)	United States funds	Amount recorded in Canadian funds (see note 5)
Senior Notes, Short Term Series:				
Payable in United States funds—				
Due to bankers	$42,475,000	$45,589,641	$25,900,000	$27,038,745
Due to others	9,375,000	10,054,569	6,655,000	6,991,567
	$51,850,000	$55,644,210	$32,555,000	$34,030,312
Payable in Canadian funds—				
Due to bankers		$17,650,000		$10,775,000
Due to others		8,748,379		4,843,000
		$26,398,379		$15,618,000

	1963 United States funds	1963 Amount recorded in Canadian funds (see note 5)	1962 United States funds	1962 Amount recorded in Canadian funds (see note 5)
Senior term notes:				
Payable in United States funds—				
6½% maturing $50,000 annually February 15, 1964 to 1970	$ 350,000	$ 344,215	$ 400,000	$ 393,390
6½% Series D maturing $334,000 annually January 1, 1964 to 1975	3,998,000	3,810,233	4,332,000	4,137,149
6½% Series E maturing $300,000 semi-annually May 15 and November 15, 1964 to 1967	2,400,000	2,327,428	3,000,000	2,898,028
6⅜% Series F maturing $300,000 annually September 15, 1964 to 1971	2,400,000	2,314,740	2,700,000	2,596,000
6% Series G maturing $800,000 annually June 1, 1964 to 1973	8,000,000	7,816,443	8,000,000	7,816,443
6% Series H maturing $750,000 annually March 1, 1965 to 1974	7,500,000	7,450,562	7,500,000	7,450,562
5½% Series I maturing $1,250,000 annually March 1, 1966 to 1975	12,500,000	12,968,000		
	$37,148,000	$ 37,031,621	$25,932,000	$25,291,572
Total senior notes payable		$119,074,210		$74,939,884

Schedule 3—SUBORDINATED NOTES PAYABLE

Particulars of subordinated notes payable at December 31, 1963 and 1962 are as follows:

	1963 United States funds	1963 Amount recorded in Canadian funds	1962 United States funds	1962 Amount recorded in Canadian funds
Payable in United States funds—				
6½% Series D maturing $250,000 annually June 1, 1965 to 1974	$ 2,500,000	$ 2,431,433	$ 2,500,000	$ 2,431,433
6½% Series G maturing $160,000 annually August 1, 1967 to 1976	1,600,000	1,582,400	1,600,000	1,582,400
6¼% Series H maturing $170,000 annually March 15, 1968 to 1977	1,700,000	1,707,900	1,700,000	1,707,900
6% Series J maturing $225,000 annually March 1, 1966 to 1975	2,250,000	2,334,240		
6% Series L maturing September 1, 1965	1,000,000	1,050,880		
	$ 9,050,000	$ 9,106,853	$ 5,800,000	$ 5,721,733
Payable in Canadian funds—				
6% maturing $137,500 annually August 1, 1966 to 1969		$ 550,000		$ 550,000
6¼% Series I maturing $30,000 annually March 15, 1968 to 1977		300,000		300,000
6⅛% Series K maturing $50,000 annually June 1, 1969 to 1978		500,000		
		$ 1,350,000		$ 850,000
Total subordinated notes payable		$10,456,853		$ 6,571,733

Schedule 4—JUNIOR SUBORDINATED NOTES PAYABLE

Particulars of junior subordinated notes payable at December 31, 1963 and 1962 are as follows:

	1963 United States funds	1963 Amount recorded in Canadian funds	1962 United States funds	1962 Amount recorded in Canadian funds
Payable in United States funds—				
6½% Series B maturing $55,000 annually September 15, 1964 to 1970	$ 385,000	$ 367,351	$ 385,000	$ 367,351
6½% Series D due December 1, 1969	1,200,000	1,153,660	1,200,000	1,153,660
6¼% Series E maturing $150,000 April 15, 1965 and $300,000 annually April 15, 1966 to 1969 and $150,000 April 15, 1970	1,500,000	1,429,500	1,500,000	1,429,500
6¾% Series F maturing $55,000 annually March 15, 1968 to 1977	550,000	551,650	550,000	551,650
6⅜% Series H maturing $150,000 annually March 1, 1966 to 1975	1,500,000	1,568,384		
6% Series J maturing September 1, 1965	1,000,000	1,050,880		
	$ 6,135,000	$ 6,121,425	$ 3,635,000	$ 3,502,161
Payable in Canadian funds—				
6½% maturing $112,500 annually August 1, 1966 to 1969		$ 450,000		$ 450,000
6¾% Series G maturing $40,000 annually March 15, 1968 to 1977		400,000		400,000
6⅜% Series I maturing $50,000 annually June 1, 1969 to 1978		500,000		
		$ 1,350,000		$ 850,000
Total junior subordinated notes		$ 7,471,425		$ 4,352,161

	1963 United States funds	1963 Amount recorded in Canadian funds	1962 United States funds	1962 Amount recorded in Canadian funds
Summary of liabilities of Canadian companies in United States funds:				
Total of notes payable in United States funds	$104,183,000	$107,904,109	$67,922,000	$68,545,778
Less United States funds held on deposit by such companies	7,924,312	8,498,862	4,251,841	4,438,758
Net amounts payable in United States funds	$ 96,258,688	$ 99,405,247	$63,670,159	$64,107,020
Total of notes payable in Canadian funds		$ 29,098,379		$17,318,000

Schedule 5—SINKING FUND DEBENTURES PAYABLE

Particulars of the sinking fund debentures payable by subsidiary companies at December 31, 1963 and 1962 are as follows:

	1963	1962
Empire Acceptance Corporation Limited (a subsidiary of Consolidated Finance Co. Ltd.)—		
5½% convertible redeemable sinking fund debentures Series "A" due March 1, 1968	$300,000	$330,000
Deduct debentures purchased and held for sinking fund	131,000	159,000
	$169,000	$171,000

In addition, Consolidated Finance Co. Ltd. has outstanding at December 31, 1963 $456,500 ($518,500 at December 31, 1962) of 5%, 5½% and 6% sinking fund debentures maturing from 1965 to 1968. This liability is not shown in the accompanying consolidated balance sheet as it is offset completely by cash and debentures held in the sinking fund and by cash placed on deposit for the purchase of the debentures.

Schedule 6—CAPITAL STOCK

Supplementary letters patent were obtained by Delta Acceptance Corporation Limited during the year ended December 31, 1963:

(a) Creating a third series of first preference shares consisting of 28,400 3% cumulative, redeemable, sinking fund first preference shares Series C.

(b) Redesignating all authorized third preference shares as second preference shares.

(c) Designating 50,000 of the authorized and unissued second preference shares previously third preference shares as 5½% cumulative redeemable convertible second preference shares Series B of $100 par value each.

(d) Subdividing all authorized common shares on the basis of three new shares for each two previously existing shares.

(e) Increasing the authorized capital by creating an additional 2,047,500 common shares.

(f) Changing the date of the annual sinking fund payment in respect of the 6% cumulative redeemable sinking fund first preference shares Series A from April 15 to October 15 effective in 1964.

Particulars of the authorized and issued capital stock of Delta Acceptance Corporation Limited at December 31, 1963 and 1962 are as follows:

	1963		1962	
	Authorized	Issued	Authorized	Issued
Preference shares:				
First preference shares of $100 par value each issuable in series—				
Authorized less redeemed: 1963—144,200 shares 1962—146,200 shares	$14,420,000		$14,620,000	
Series A—6% cumulative sinking fund shares redeemable at $103 per share to May 15, 1964 and at decreasing amounts annually thereafter to May 15, 1969. (Minimum sinking fund requirements of $190,000 on October 15 in each year.)—				
Issued less redeemed: 1963—13,200 shares 1962—15,200 shares		$ 1,320,000		$ 1,520,000
Series B—5½% cumulative sinking fund shares redeemable at par. (Minimum sinking fund requirements of $115,000 in each year commencing in 1969)— Issued—1963 and 1962 11,500 shares		1,150,000		1,150,000
Series C—3% cumulative sinking fund shares redeemable at par. (Minimum sinking fund requirements on or before April 25, 1964, $700,000; April 25, 1965, $700,000; April 25, 1966, $600,000; April 25, 1967, $500,000; April 25, 1968, $340,000)— Issued—1963 28,400 shares		2,840,000		
Second preference shares of $100 par value each—				
Authorized less converted: 1962—14,725 shares			1,472,500	
5⅞% cumulative convertible sinking fund shares redeemable at par after January 16, 1966. Each $100 par value preference share convertible into 9 common shares to January 15, 1963 and subsequently at decreasing rates during a period ending January 15, 1969. (Sinking fund requirements—5% of outstanding par value in each year commencing in 1966)				
Issued less converted: 1962—14,725 shares				1,472,500
Second preference shares				
(Third preference shares prior to redesignation by supplementary letters patent dated November 19, 1963 of $100 par value each issuable in series—				
Authorized: 1963 and 1962—100,000 shares	$10,000,000		10,000,000	

	1963 Authorized	1963 Issued	1962 Authorized	1962 Issued
Series A—5½% cumulative convertible sinking fund shares. Each $100 par value preference share convertible into 7½ common (5 old common shares in 1962) shares on or before October 15, 1970. Redeemable on or after October 16, 1970 at par. (Minimum sinking fund requirements of $500,000 in each year commencing in 1970)—				
Issued:				
1963—50,000 shares		$ 5,000,000		
1962—12,000 shares				$ 1,200,000
Series B—5½% cumulative convertible shares. Each $100 par value preference share convertible into 5 common shares on or before December 16, 1968. Redeemable on or after December 17, 1968 at $105.50 per share until December 16, 1969 and at decreasing amounts annually thereafter. (Purchase requirements in each year commencing in 1969—4% of outstanding shares, if available at not more than par value.)				
Issued: 1963—50,000 shares		5,000,000		
	$24,420,000	$15,310,000	$26,092,500	$ 5,342,500
Common shares of no par value:				
Authorized:				
1963—4,500,000 shares				
1962—1,502,475 shares				
Issued:				
1963—2,103,694 shares		$ 9,513,273		
1962— 963,534 shares				$ 5,684,116
		$24,823,273		$11,026,616

On January 15, 1963, 14,725 5⅞% cumulative redeemable convertible sinking fund second preference shares were converted into 132,525 common shares in accordance with the conversion privilege attaching to such shares. Also during 1963 2,000 6% Series "A" first preference shares were redeemed at par.

The following shares were allotted and issued during the year:

First preference shares—
Series C—28,400 at their par value of $2,840,000 as partial consideration for purchase of shares of The Colorado Industrial Bank and affiliated companies.

Second preference shares (previously third preference shares)
Series A—38,000 for cash of $3,800,000
Series B—50,000 for cash of $5,000,000

Common shares:	Number	Amount
For cash—		
On exercise of options held by employees	14,100	$ 208,600
On exercise of stock purchase warrants issued to holders of first preference shares—Series A	31,347	227,579
	45,447	$ 436,179
On conversion of second preference shares	132,525	1,472,500
Additional shares issued on subdivision on basis of 3 new shares for each 2 old shares	570,603	–
Issued in exchange for preferred and common shares of Security Acceptance Corporation	391,585	1,920,478
	1,140,160	$3,829,157

As indicated in Note 2, the exchange of shares with holders of shares of Security Acceptance Corporation was treated as a "pooling of interests" and, accordingly, the value of $1,920,478 assigned to the common shares of Delta Acceptance Corporation Limited issued in connection therewith was the stated value of the Security Acceptance Corporation preferred and common shares received in exchange, as recorded in the accounts of the company.

In addition to the capital stock issued at December 31, 1963, additional common shares were reserved as follows:

(a) for issue under conversion privileges attached to second preference shares (previously third preference shares)—Series A (based on conversion privilege available on or before October 15, 1970 of 7½ common shares for each $100 par value preference share)	375,000 shares
(b) for issue under conversion privileges attached to second preference shares—Series B (based on conversion privilege available on or before December 16, 1968 of 5 common shares for each $100 par value preference share)	250,000 shares
(c) for issue against outstanding stock purchase warrants	
(i) expiring August 1, 1967 at $4.39 per share (issued to purchaser of subordinated note)	46,163 shares
(ii) expiring June 30, 1969 at $10.67 per share (issued to purchaser of first preference share Series B)	34,500 shares
(d) for issue under options held by employees—	
(i) expiring December 31, 1964 at $8.00 per share	1,913 shares
(ii) expiring December 31, 1966 at $10.67 per share	30,375 shares
(iii) expiring December 31, 1967 at $10.67 per share	9,300 shares
(iv) expiring December 31, 1967 at $12.00 per share	1,500 shares
(v) expiring January 4, 1968 at $12.00 per share	7,500 shares
(vi) expiring December 31, 1968 at $15.30 per share	8,500 shares
	764,751 shares

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